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STATE FOR WHA/BSC, INL/LP (JIM HIDES)
EB/IFD/OIA
STATE PASS TO USAID FOR LAC/AA
STATE PASS TO USTR FOR LYANG
NSC FOR SUE CRONIN
TREASURY FOR OSIA MAUREEN WAFER
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR
COMMERCE FOR ITA SARAH COOK
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SUBJECT: PARAGUAY POLITICAL AND ECONOMIC UPDATE JULY 4-13,
2007

Classified By: Ambassador James C. Cason; Reasons 1.4(b),(d)

11. (U) SUMMARY:

- Supreme Court Power: Terrorism Dealt a Blow
- Two New Ministers
- New Senate Leadership
- Call on New Congress Leaders
- Got Justice? Prosecutors Taken Off Case
- Whistleblower System: Public Officials Beware!
- Going the Last Mile
- Viva the Environment!
- Customs - Navy Agreement
- Taiwan and Paraguay Mark 50 Years of Diplomatic Relations

POWER OF THE COURT: TERRORISM DEALT A BLOW

12. (U) The Paraguayan Supreme Court last month unanimously voted to revoke the citizenship of all naturalized Paraguayan citizens convicted of felonies. The move targeted two naturalized Lebanese men, Assad Ahmad Barakat and Sobhi Mamoud Fayad, who were previously found guilty of tax evasion and upon release from Paraguayan prison will face deportation. The US government suspects Barakat and Fayad to be key Hezbollah fundraisers operating in the Tri-Border region. Paraguay does not have existing counterterrorism (CT) laws and has relied on such judicial maneuvers as that described above to target suspected terrorists operating in the country. Though Paraguay is attempting to pass CT legislation, it is finding the task difficult as such laws face opposition from rural landless groups and a local population who make a living off of smuggling and selling pirated goods. These groups believe they will be targeted by CT legislation.

TWO NEW MINISTERS

13. (U) The Minister of Education and Minister of the National

Emergency Secretariat resigned on July 2. The former Minister of Social Action, Maria Ester Jimenez, replaced Blanca Ovelar de Duarte as Minister of Education while retired general (former commander of the Paraguayan Military) Jose Key Kanazawa Gamarra replaced Aristides Gonzalez as the Minister of the National Emergency Secretariat. Ovelar, President Nicanor Duarte Frutos, hand-picked presidential pre-candidate, resigned from her position to dedicate time to her presidential campaign. Her replacement, Jimenez, was sworn in on July 3. Gonzalez resigned amongst allegations of corruption. The Supreme Court recently found Gonzalez guilty of misappropriating funds and sentenced him to pay USD 50,000 in the form of a direct donation to public voluntary organizations. (NOTE: The court reduced Gonzalez,s sentence as part of a plea bargain in which he admitted his involvement in a scandal related to the implementation of a food supply program for poor rural school children. END NOTE.) Gonzalez is also prohibited from leaving the country and holding a public office for two years. His replacement, Kanazawa, took office on July 9.

NEW SENATE LEADERSHIP

¶4. (U) The Senate elected a new presidency on June 28. The senators elected Liberal Party (PLRA) member Miguel Saguier as its new president, Ana Mendoza de Acha (PQ) as vice president, and Jorge Oviedo Matto (Unace) as the second vice president. The opposition parties, who represent a majority in the Senate with 28 members, voted Saguier (who served as President of the Senate in 1996/1997) president with 27 votes while Acha and Matto both received 28 votes.

CALL ON NEW CONGRESS LEADERS

¶5. (U) Ambassador Cason, accompanied by USAID director John Beed, paid an initial courtesy call July 11 on the newly-elected leadership of Paraguay,s Congress, Senator Saguier, and president of the Lower House/Deputies Oscar Salomon (Colorado party). Ambassador Cason emphasized the range of assistance the United States provides Paraguay through USAID in democracy, health, and economic support, as well as the importance of the MCC Threshold program,s anti-corruption aims. The Ambassador also underscored the enormous opportunity the country will have if it qualifies for an MCC Compact. The new leadership expressed strong interest in realizing the objectives of the congressional component of the MCC Threshold program -- designed to improve analysis and oversight of national budget expenditures.

GOT JUSTICE? PROSECUTORS TAKEN OFF CASE

¶6. (C) According to media reports, civil society organizations (including Transparency International), the Prosecutors' Association of Paraguay, and the media have all recently denounced the removal of anti-corruption prosecutors Arnaldo Guizzio, Rene Fernandez, and Carlos Arregui from a high-profile corruption investigation involving former foreign minister Ruben Melgarejo Lanzoni and prosecutor Juan Claudio Gaona. Attorney General Ruben Candia Amarilla removed the prosecutors from the case on June 29. The three prosecutors have been referred to a disciplinary panel to review their conduct in carrying out the investigation. The panel could potentially vote to remove the prosecutors from their positions within the Attorney General's Office. According to Chief Justice Alicia Pucheta de Correa (and other USAID and DOJ sources), there appears to be no legal basis for removing the prosecutors from the case, let alone for referral to the review panel. This issue has dominated media interest over the past week and raises serious questions about the overall resolve of some institutions and individuals to root out corruption.

WHISTLEBLOWER SYSTEM: PUBLIC OFFICIALS BEWARE!

¶17. (U) Attorney General Candia approved on July 4 the installation of a USAID-funded system at the Public Ministry created to facilitate the discovery and development of internal corruption cases. The system, which safeguards the identity of the "whistleblower," has already had a positive impact through use by the Finance Ministry in government contracting. The number of corruption cases identified by the public has increased and several substantiated claims led the Finance Ministry to cancel several procurements.

GOING THE LAST MILE

¶18. (U) Ambassador Cason visited the interior cities of Villarica and Colonel Oviedo on July 6 to review progress made by USAID's local government program, and a new "Last Mile" program designed to catalyze greater internet access for underserved communities. The Ambassador and USAID director John Beed witnessed the signing of two agreements designed to create a stronger, merit-based civil service at the municipality and extend USAID's assistance for the city's transparency and accountability efforts. The transparency initiatives of Villarica Mayor Federico Alderete Guggiari (lauded by President Bush in his speech launching the Western Hemisphere Initiative) are being replicated now in other parts of the country. The visit to two sites supported by Last Mile revealed that the program is already

reaching rural residents and many youth without access to the Internet. Throughout the country, the program is bringing internet access to 100 sites and an estimated 50,000 people and has drawn increased attention to its digital divide problem. The project has also attracted additional financial support from private cell phone service providers.

VIVA THE ENVIRONMENT!

¶19. (U) The Secretariat of Environment (SEAM) reports that deforestation in the country decreased during the first five months of 2007 in comparison with the previous year. The report reveals that the Law 3139/2006, also known as the "Zero Deforestation Law," has positively impacted the Eastern region of the country, where the most significant decrease in deforestation rates has occurred. The law was developed by the World Wildlife Fund and SEAM with USAID support.

CUSTOMS - NAVY AGREEMENT

¶10. (U) On July 4, Paraguayan customs signed a new agreement with the Navy, establishing landmark cooperation between the customs agency and the military on anti-contraband and customs enforcement. The joint effort was catalyzed by support from the MCC Threshold Program.

TAIWAN AND PARAGUAY MARK 50 YEARS OF DIPLOMATIC RELATIONS

¶11. (U) Republic of China (ROC) Vice President Annette Lu concluded a four day visit to Paraguay on July 9 in an attempt to maintain support from its only South American ally. The trip coincided with the 50th Anniversary of diplomatic relations between the two countries. During her trip, Lu promised to increase funding to Paraguay, and announced that the ROC had decided to forgive USD 400 million of debt that Paraguay owes the ROC. Lu gave President Nicanor Duarte Frutos USD 2 million of a USD 29 million planned donation. She stressed the need for the aid to be used

correctly and mechanisms to be put in place to control the funds. In Ciudad del Este, (home to thousands of Taiwanese migrants) Lu donated 20,000 USD to a hospital and 53,000 USD to the municipal government.

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